



BULGARIAN NATIONAL BANK

DISCLOSURE

**OF THE LEVELS OF PROTECTION RELATING TO THE DIFFERENT LEVELS OF
SEGREGATION OF GOVERNMENT SECURITIES HELD BY THE PARTICIPANTS
IN THE GOVERNMENT SECURITIES DEPOSITORY AT THE BNB AND THEIR
CLIENTS**

Government Securities Depository at the Bulgarian National Bank

Sofia, April 2025

Content

1. Introduction	3
2. Government Securities Depository at the BNB	3
3. Legal and regulatory framework	4
4. Main legal implications of levels of segregation	6
5. Level of GS protection and costs at different levels of segregation in GSD.....	9
6. Compliance with the regulatory requirements of GSD and the requirements of Art. 38, paras 5 to 7 of Regulation (EU) No 909/2014	11

1. Introduction

The purpose of this document is to describe the levels of protection associated with the different levels of segregation of government securities (GS) which belong to the participants in the Government Securities Depository at the BNB (GSD) and to their clients in accordance with the requirements of Article 38 of Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (the Regulation), according to which:

‘CSDs and their participants shall publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and shall offer those services on reasonable commercial terms. Details of the different levels of segregation shall include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions’.

This document includes a description of the GS settlement accounts and levels of segregation offered by the GSD, as well as the legal implications of the levels of segregation, including information on insolvency of a participant in the Depository.

2. Government Securities Depository at the BNB

In accordance with the Law on the BNB and the Law on Government Debt, the Bulgarian National Bank (BNB) acts as the fiscal agent and depository of the Government.

The Government Securities Depository runs a government securities registration and settlement system at the BNB – BNBGSSS (the System):

➤ BNBGSSS has been notified as a settlement finality system under Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, as amended by Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009;

➤ BNBGSSS consists of an electronic system for registration and servicing of trades in government securities (ESROT), and a system of government securities settlement accounts (GSSS). A direct interface for automated data exchange has been set up between ESROT and GSSS;

➤ BNBGSSS is a participant in the Eurosystem’s IT platform for securities settlement in central bank money - Target2-Securities (T2S);

- BNBGSSS offers the following core services¹:
 - initial recording of government securities in a book-entry system ('notary services');
 - providing and maintaining GS accounts at the top tier level ('central maintenance services');
 - operating a GS settlement system ('settlement services').
- BNBGSSS offers the following non-banking-type ancillary services²:
 - services related to the settlement service, such as: settlement matching, instruction routing, trade confirmation, trade verification;
 - services related to the notary and central maintenance services, such as:
 - new GS issues services;
 - processing of corporate actions;
 - instruction routing and processing, fee collection and processing and related reporting.

3. Legal and regulatory framework

3.1. Legal basis

Investments in government securities held by the BNBGSSS participants are governed and protected by the following legal acts:

- Law on the BNB;
- Law on the Government Debt;
- Law on the Public Offering of Financial Instruments;
- Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories;
 - Ordinance No 5 of the Ministry of Finance and the BNB on the Terms and Procedure for Acquisition, Registration, Redemption and Trade in Government Securities (Ordinance No 5);
 - Ordinance No 15 of the Ministry of Finance and the BNB on the Control over Transactions in Government Securities (Ordinance No 15);
 - Ordinance No 31 of the BNB on Government Securities Settlement (Ordinance No 31);
 - Rules and procedures for the use of the government securities registration and settlement system at the BNB - BNBGSSS.

¹ In accordance with Section A of the Annex to Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories.

² In accordance with Section B of the Annex to Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories.

3.2. Requirements for segregating GS accounts.

3.2.1 Requirements of Regulation (EU) No 909/2014.

Article 38 of the Regulation lays down rules for segregating securities accounts opened for the participants in the settlement system operated by a central securities depository (CSD). These accounts are divided into: accounts of participants and accounts of their clients.

Article 38 of Regulation (EU) No 909/2014 defines the following requirements for segregating accounts:

1. For each securities settlement system it operates, a CSD keeps records and accounts that shall enable it, at any time and without delay, to segregate in the accounts with the CSD, the securities of a participant from those of any other participant and, if applicable, from the CSD's own assets.

2. A CSD keeps records and accounts that enable any participant to segregate the securities of the participant from those of the participant's clients.

3. A CSD shall keep records and accounts that enable any participant to hold in one securities account the securities that belong to different clients of that participant ('omnibus client segregation' or 'omnibus client accounts').

4. A CSD shall keep records and accounts that enable a participant to segregate the securities of any of the participant's clients, if and as required by the participant ('individual client segregation').

5. A participant shall offer its clients at least the choice between omnibus client segregation and individual client segregation and informs them of the costs and risks associated with each option. However, a CSD and its participants shall provide individual clients segregation for citizens and residents of, and legal persons established in, a Member State where required under the national law of the Member State under which the securities are constituted. That obligation shall apply as long as the national law is not amended or repealed and its objectives are still valid.

6. CSD's and their participants shall publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and shall offer those services on reasonable commercial terms. Details of the different levels of segregation shall include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions.

7. A CSD shall not use for any purpose securities that do not belong to it. A CSD may however use securities of a participant where it has obtained that participant's prior express consent. The CSD shall require its participants to obtain any necessary prior consent from their clients.

3.2.2. National legal framework

BNBGSSS keeps GS accounts for each participant and omnibus accounts for the clients of each participant. The participants in the System must keep individual accounts for the government securities held by all their clients on the basis of concluded contracts.

➤ *Pursuant to Article 35(2) of the Law on the Government Debt*, the Bulgarian National Bank maintains individual accounts for the government securities held by each participant, as well as joint (omnibus) accounts for the government securities held by the participants' clients;

➤ *Pursuant to Article 35(4) of the Law on the Government Debt*, government securities sub-depositaries maintain systems for registration of the government securities held by clients of the sub-depositaries and by clients of the ESROT participants which are not sub-depositaries, as well as individual accounts for the government securities held by those clients;

➤ *Pursuant to Article 8(1) of Ordinance No 31*, the BNB opens and keeps GS settlement accounts as follows:

- an account 'GS owned by BNBGSSS participants';
- an omnibus account 'GS owned by clients of BNBGSSS participants';
- an account 'Encumbered GS owned by BNBGSSS participants'.

➤ *Pursuant to Article 24(1) of Ordinance No 5*, GS sub-depositaries maintain GS record-keeping systems in which individual GS accounts are kept to record the GS held by their clients and by clients of BNBGSSS participants which are not sub-depositaries, on the basis of a contract concluded with the participant;

➤ *Under Article 11(2) of Ordinance No 31*, sub-depositaries segregate their own government securities from those of their clients and are not liable to their creditors with the government securities of clients for whom they keep accounts for the settlement of government securities.

4. Main legal implications of levels of segregation

4.1. Levels of segregation of government securities accounts

The main levels of segregation of accounts in BNBGSSS are:

- participants' own GS accounts;
- omnibus GS accounts of participants' clients.

The Government Securities Depository keeps individual records and accounts of the participants in the System and omnibus accounts for the government securities held by their clients. Government securities sub-depositories maintain systems to record the government securities held by their clients and by clients of participants for whom they perform sub-depository functions, as well as individual accounts for the government securities held by those clients.

GSSS does not offer a level of individual client segregation of GS held by the clients of its participants.

Pursuant to Article 38 of Regulation (EU) No 909/2014, the Government Securities Depository provides an omnibus client segregation, but it is possible, if the participants in the System so request, to implement an individual client segregation of the government securities held by the participants' clients, even though such segregation entails additional costs due to the large number of accounts to be opened for each individual client of the participants in BNBGSSS.

Pursuant to Article 11(4) of the Rules of Procedures of the User committee of the GS registration and settlement system at the BNB, the Government Securities Depository had two consultations with the participants in BNBGSSS to discuss the possibility of individual client separation in the Depository (by individual clients of a participant), and there such a change was not considered necessary.

An 'encumbered GS account held by GSSS participants' is opened for:

- establishing a pledge under the Law on Special Pledges;
- securing funds on accounts and deposits of budgetary organisations with banks participating in GSD;
- other cases.

As regards the requirements of Article 38(5) of Regulation (EU) No 909/2014, the Bulgarian law does not explicitly oblige the Depository to open individual accounts for each client of a BNBGSSS participant.

4.2 Application of the regulatory framework in cases of insolvency and declaring insolvency proceedings

The GS Depository at the BNB is within the structure of the central bank of the Republic of Bulgaria and is not a separate legal entity. In this regard, there is no risk of insolvency.

Participants in BNBGSSS are mainly credit institutions and where insolvency proceedings are opened against a participant, in accordance with Article 6(1) and (2) of Ordinance No 5, in order to reduce systemic risk, GSD temporarily restricts the participant's access to BNBGSSS or terminates it altogether. In these cases, GSG transfers GS held by the participant and in total by its clients, including encumbrances, to another BNBGSSS participant – a GS sub-depositary, designated by the Ministry of Finance in coordination with the BNB. The transfer of such government securities takes place *ex officio*.

In the cases of open insolvency proceedings against a participant in the System, in accordance with Article 36 of Ordinance No 5, GSD may not transfer to the cash settlement accounts on the due date of the respective GS issue or the interest payments on GS the funds necessary for the payment. In this case, the Ministry of Finance, in consultation with the BNB, immediately designates a sub-depositary to make payments of government securities and interest thereon to the clients of the participant subject to insolvency proceedings.

In the event that a participant in BNBGSSS represents a third party, in accordance with point 3.3.8 of the 'Rules and procedures for the use of the government securities registration and settlement system at the BNB – BNBGSSS', when applying for participation in the System, it must provide information and/or documents containing information that, in the event of insolvency proceedings or other proceedings against the participant, the rights or assets transferred as security or pledged by the participant in favour of the BNB or other GSD participants will have priority over the claims of all other creditors of the participant, and the other creditors may not be satisfied from them with priority.

4.3. Application of the legal basis in open insolvency proceedings against a BNBGSSS participant

Article 6(1)(1) of Ordinance No 5 of the Ministry of Finance and the BNB and point 3.5.1 of the BNBGSSS Rules regulate the termination of participation in ESROT in the event of open insolvency proceedings against a participant.

In addition, Article 6 of Ordinance No 5 of the Ministry of Finance and the BNB and point 10.2 of the BNBGSSS Rules regulate the protective actions of the GS depository in such cases, according to which GS held by the participant and in total by its clients, including those with encumbrances, are transferred *ex officio* to another participant – a GS sub-depository determined by the Ministry of Finance in coordination with the BNB.

5. Level of GS protection and costs at different levels of segregation in GSD

The Table below shows the level of protection at the different levels of GS segregation

GS ACCOUNTS PROTECTION LEVEL	GS accounts owned by participants	GS accounts, owned in total by participants' clients	Encumbered GS accounts, owned by participants
In order to avoid difficulties in identifying individual client assets, given that omnibus accounts are used in GSD, whereas sub-depositaries run the systems for individual accounts of their clients and clients of participants in ESROT which are not sub-depositaries:			
<i>The BNB and the Ministry of Finance exercise joint control over the systems for registration of transactions in government securities, kept by the government securities sub-depositaries. (Article 10 of Ordinance No 15 of the Ministry of Finance and the BNB);</i>	✓	✓	✓
<i>Each participant warrants to the BNB that all applicable legal, tax or regulatory requirements for disclosure or reporting of holding, control and proof of beneficial ownership with respect to government securities held by BNBGSSS participants are complied with. (14.1 of the BNBGSSS Rules);</i>	✓	✓	✓
<i>Unless otherwise specified in the regulations governing archival activity, sub-depositaries store the data in the registration systems for an unlimited period of time. (Article 24(2) of Ordinance No 5 of the Ministry of Finance and the BNB);</i>	✓	✓	✓
<i>Upon request by the BNB, sub-depositaries provide any information, including information about their clients. (14.2.2.7. of the BNBGSSS Rules)</i>	✓	✓	
In order to protect, regulate and clearly segregate the own assets of sub-depositaries from those of their clients and those of non-sub-depository ESROT participants:			

<i>The GS sub-depositories segregate their own government securities from those of the clients, without being accountable to their creditors for the government securities of the clients (theirs and those of participants in ESROT who are not sub-depositaries), for which they keep the individual accounts. (5.5.2 of the BNBGSSS Rules);</i>	✓	✓	
<i>In the event of open insolvency proceedings, GSD transfers the government securities held by the participant ex officio and in total by its clients, including those with imposed burdens, to another participant, a sub-depositary of government securities determined by the Ministry of Finance, in agreement with the BNB. (10.2.5. of the GSD Rules, Art. 6 of Ordinance No 5 of the Ministry of Finance and the BNB).</i>	✓	✓	✓
In order to regulate the protection against improper use of government securities of clients/participants:			
<i>Under Article 45(3) of the Law on the BNB, the Bulgarian National Bank may not purchase debt instruments, issued by the Bulgarian Government and municipalities or by Bulgarian government and municipal institutions, public sector organisations and enterprises, either on the primary or on the secondary market;</i>	✓	✓	
<i>The GS depository does not hold its own GS account and cash accounts in BGN and in euro (5.1.1.5. of the BNBGSSS Rules).</i>	✓	✓	
In order to control the reconciliation procedures in BNBGSSS and the Participants:			
<i>Control over the registration of GS transactions is carried out on the basis of reports, statements, information and other documents submitted by the participants in ESROT monthly, quarterly or at the request of the MoF and the BNB (Article 12 of Ordinance No 15 of MoF and BNB).</i>	✓	✓	✓
<i>Controlling persons have the right to require additional statements, information and other documents related to the inspection. (Article 13 of Ordinance No 15 of the Ministry of Finance and the BNB)</i>	✓	✓	✓
<i>BNBGSSS applies the principle of double-entry accounting. On a daily basis, at the end of the system day, the data on government securities registered with ESROT are reconciled with those kept on the separate GS settlement accounts in GSSS.</i>	✓	✓	✓

The 'Fees and Commissions Tariff for the Processing of GS Transactions' indicates the costs of:

1. Opening, keeping and closing GS accounts for each GS issue for GS owned by a participant; for government securities held in total by its clients; for encumbered government securities owned by the participant.

2. Current reconciliation of GS kept in the register of an ESROT participant and GS on the GS settlement accounts opened in GSSS within the system day;

3. Monthly reconciliation of the data on GS kept in the registers of the ESROT participants with the data on government securities held by them and by their clients in their respective registration systems.

In accordance with the 'Internal Risk Management Rules of the GS Depository', GSD identifies, assesses, monitors and reports all risks associated with the storage of GS, limiting the risks to which it may expose its participants.

6. Compliance with the regulatory requirements of GSD and the requirements of Art. 38, paras 5 to 7 of Regulation (EU) No 909/2014

6.1. Art. 38, par. 5 of Regulation (EU) No 909/2014

With regard to the requirements of Article 38(5) of Regulation (EU) No 909/2014, the Bulgarian law does not explicitly oblige the depository to open individual accounts for each individual client of a participant in the BNBGSSS.

6.2. Article 38, par. 6 of Regulation (EU) No 909/2014

This document is issued on the grounds and in applying Art. 38, par. 6 of Regulation (EU) No 909/2014.

6.3. Article 38, par. 7 of Regulation (EU) No 909/2014

The GS depository confirms that it complies with the requirement of Article 38(7) of Regulation (EU) No 909/2014. In accordance with point 5.1.1.5. of the BNBGSSS Rules, GSD does not own its own assets. The Bulgarian National Bank may not purchase, either on the primary or on the secondary market, debt instruments issued by the Bulgarian Government and municipalities, or by Bulgarian government and municipal institutions, public sector organisations and enterprises (Article 45(3) of the Law on the BNB).

Compiled by:

.....

Velimira Koleva, Director of the Fiscal Services Directorate

Coordinated with:

.....

/Neli Draginova, Chief Legal of the Bulgarian National Bank, Legal Directorate/

.....

/Tihomir Pirkov, Lead Legal Adviser, Legal Directorate /

.....

/Vasil Konov, Team Leader, Director of the Payment Systems and MRR Directorate/